

BLACK DIAMOND ENERGY, INC. SETTLEMENT AGREEMENT

The Wyoming Department of Environmental Quality, Water Quality Division (DEQ/WQD) and Black Diamond Energy, Inc. (Black Diamond) (together herein referred to as "the Parties") hereby agree to resolve, without litigation, the violations alleged in Notice of Violation Docket No. 4274-08 (NOV) dated July 10, 2008, by entering into this Settlement Agreement. The NOV alleges that three of Black Diamond's permits (WY0044300, WY0052884, and WY0055336) have had four or more recurring violations involving effluent limit exceedences and missed sampling events which are violations of the Wyoming Environmental Quality Act (WEQA), Wyoming Water Quality Rules and Regulations (WWQRR), and applicable permit conditions.

WYO. STAT. ANN. § 35-11-901(a)(ii) authorizes the DEQ to negotiate a stipulated settlement, including payment of a penalty, compliance schedules, or other enforcement conditions, in lieu of litigation. To that end, the Parties hereby stipulate and agree as follows.

1. The DEQ is the executive branch agency of Wyoming state government with responsibility for administering the WEQA. The WQD is the division within the DEQ with responsibility for administering article 3 of the WEQA and all provisions of the WWQRR.
2. Black Diamond operates several coal bed methane gas production facilities in Wyoming and holds several Wyoming Pollution Discharge Elimination System (WYPDES) permits. The permits were issued by DEQ/WQD.
3. DEQ/WQD alleges that between January 1, 2006 and July 10, 2008, three permits held by Black Diamond (WY0044300, WY0052884, and WY0055336) had four or more recurring violations. These recurring violations involved effluent limit exceedences and missed sampling events. Violations were identified through exceedence notifications, Discharge Monitoring Reports (DMRs) and inspections. DEQ/WQD sent seven Letters of Violation (LOVs) to Black Diamond in this time period.
4. DEQ issued NOV No. 4274-08 to Black Diamond on July 10, 2008 which alleged as follows:
 - a. Black Diamond has reported 11 permit effluent limit exceedences and has missed 83 required sampling events from January 2006 to July 2008.
 - b. Black Diamond failed to respond in a timely manner to several LOVs sent on July 12, 2007, April 18, 2008 and June 3, 2008.
5. Black Diamond agrees that within thirty (30) days of the effective date of this Settlement Agreement, it will submit a written plan to DEQ which will prevent future recurring effluent limit exceedences and assure timely sampling reporting.

6. Black Diamond agrees to pay a total of seven thousand five hundred dollars (\$7,500.00) directly to DEQ/WQD as a stipulated penalty to resolve the specific allegations in the above referenced NOV in lieu of litigation as provided under WYO. STAT. ANN. § 35-11-901(a)(ii). This payment is due and payable in full within thirty (30) days of the effective date of this Settlement Agreement. Payment shall be made by check payable to the Wyoming Department of Environmental Quality/Water Quality Division, shall reference Docket Number 4274-08, and shall be addressed to:

Wyoming Department of Environmental Quality/Water Quality Division
Attn: Kevin Wells, WYPDES Compliance/Enforcement Program Manager
Herschler Building 4 West, 122 West 25th Street
Cheyenne, Wyoming 82002

7. Full compliance with all the terms of this executed Settlement Agreement shall constitute satisfaction for and resolution of all claims by the DEQ/WQD against Black Diamond based on the violations specifically alleged in NOV 4274-08. Contingent upon Black Diamond's compliance with the terms of this Settlement Agreement, DEQ/WQD will refrain from taking further enforcement action against Black Diamond for these specific violations alleged in NOV 4274-08.

8. This Settlement Agreement is contingent on the entry of a Consent Decree in the case of *People of the State of Wyoming vs. Black Diamond Energy, Inc.*, Civil No. 173-249 in the First Judicial District in Laramie County, Wyoming. Should the Consent Decree not be approved by the Court, this Settlement Agreement will be null and void.

9. Nothing in this Settlement Agreement precludes DEQ from taking additional enforcement actions, including the issuance of NOVs, Orders, and/or pursuing additional penalties, in the event Black Diamond violates the WEQA and WWQRR in the future.

10. This Settlement Agreement shall be admissible by either party without objection by the other party in any action to enforce its terms.

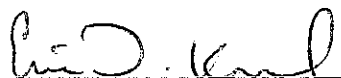
11. This Settlement Agreement does not constitute an admission by Black Diamond or a retraction by DEQ of the specific allegations in NOV No. 4274-08.

12. Notwithstanding any other language in this Settlement Agreement, the State of Wyoming and DEQ do not waive sovereign immunity by entering into this Settlement Agreement with Black Diamond and specifically retain all immunity and all defenses available to them as sovereigns under state and federal law.

Black Diamond Settlement Agreement
July 21, 2009

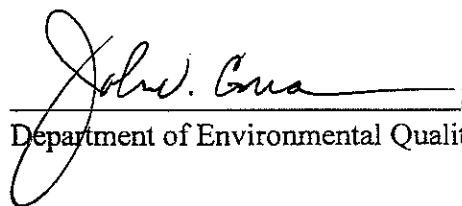
13. Each party shall bear its own attorney fees and costs, if any, incurred through the date this Settlement Agreement is signed by both parties.
14. This Settlement Agreement is binding upon Black Diamond, its successors and assigns, and upon the DEQ.
15. The persons signing this Settlement Agreement certify that they are duly authorized to bind their respective party to this Settlement Agreement.
16. This agreement is not binding until fully executed by the Parties to this Settlement Agreement.

FOR: BLACK DIAMOND ENERGY, INC.

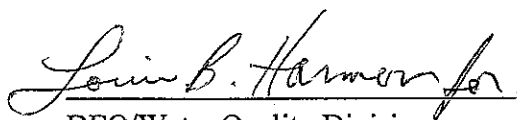
Signed: 

Date: 8-10-09

FOR: THE WYOMING DEPARTMENT OF ENVIRONMENTAL QUALITY:

, Director
Department of Environmental Quality

Date: 8/14/09

, Administrator
DEQ/Water Quality Division

Date: 8/14/09